MEETING OF AUDIT COMMITTEE
Community College of Philadelphia
Wednesday, June 26, 2013 – 12:00 Noon

TO: Audit Committee of the Board of Trustees

FROM: Todd E. Murphy
Controller

DATE: June 20, 2013

SUBJECT: **Committee Meeting**

A meeting of the Audit Committee will be held on **Wednesday, June 26, 2013 at 12:00 Noon** in the College's Isadore A. Shrager Board Room, M2-1. Lunch will be provided for the meeting.

AGENDA – PUBLIC SESSION

1. **Approve Minutes of Audit Committee Meeting on March 21, 2013 (Action Item):**

   Attachment A contains the minutes from the March 21, 2013 meeting. The Committee is asked to review and approve the minutes.

2. **2012-2013 Audit Process (Information Item):**

   Ms. Chris Chepel, Engagement Partner, and Mr. Arthur M. Ayres, Jr., Manager from KPMG LLC will provide an overview of the 2012-2013 fiscal year audit process and solicit Audit Committee members' suggestions for issues which should be given special attention during the 2012-2013 fiscal year audit. Attachment B contains the handout that will be issued by Ms. Chepel in describing the planned 2012-2013 audit process.

   The 2012-2013 audit results are scheduled to be presented at the September 2013 Audit Committee meeting.

3. **2012-2013 Budget Update (Information Item):**

   Dr. Hawk and Mr. Spiewak will provide an overview of the College's budget status for fiscal year 2012-2013. A handout will be provided and discussed at the meeting.

4. **Internal Audit Plan 2013-2014 Year (Information Item):**

Mr. Robert Lucas, Internal Auditor, will present the 2013-2014 Audit Plan and provide a status report on 2012-2013 internal audit activities. Attachment C contains a summary of the audit issues which will be addressed in the 2013-2014 Internal Audit Plan.

5. **September Meeting Date (Information Item):**

An Audit Committee Meeting will need to be scheduled for the last week in September 2013. At that meeting, the Committee will discuss the 2012-2013 audit results.

EXECUTIVE SESSION

During any audit committee meeting; Management, The Independent Auditors or the Internal Auditor may request an Executive Session to meet privately with the Audit Committee. At this meeting the Internal Auditor is scheduled to meet with the Committee.

TEM/lmh
Attachments

cc: Dr. Stephen M. Curtis
Mr. Robert Lucas
Dr. Thomas R. Hawk
Jill Garfinkle Weitz, Esq.
Representing KPMG: Ms. Chris Chepel and Mr. Arthur M. Ayres, Jr.

ATTACHMENT A

MINUTES FROM MARCH 21, 2013

AUDIT COMMITTEE MEETING

MEETING OF AUDIT COMMITTEE
Community College of Philadelphia
Thursday, March 21, 2013 – 12:00 Noon

Present: Mr. Jeremiah White, Mr. Rich Downs (via telephone), Dr. Stephen M. Curtis, Dr. Thomas R. Hawk, Mr. Todd Murphy, Mr. James Spiewak, Dr. Samuel Hirsch, Jill Garfinkle Weitz, Esq., Mr. Waverly Coleman, Mr. Gim Lim, Mr. Daniel Robb, Dr. Wayne Wormley; and representing KPMG: Ms. Chris Chepel and Mr. Arthur M. Ayres, Jr.

Not Present: The Honorable Michael A. Nutter and Mr. Matt Bergheiser

AGENDA – PUBLIC SESSION

(1) Approve Minutes of Audit Committee Meeting on September 25, 2012 (Action Item):

Action: Mr. Downs asked for a motion to recommend acceptance of the September 25, 2012 Audit Committee meeting minutes. Mr. White made the motion. Mr. Downs seconded the motion. The motion passed unanimously.

(2) 2011-2012 A-133 Audit Report (Information Item):

Ms. Chepel and Mr. Ayres reviewed the results of the 2012 A-133 Audit using the draft in Attachment A. They summarized the scheduled of federal awards. The College's had $98 million in Federal expenditures of which $91 million was in Student Financial Aid. Student Financial Aid is comprised of primarily Pell Awards and Direct Loans. The single audit process for determining programs to audit requires auditors to remove the Student Financial Aid Cluster, which leaves a base of about $6 million in smaller programs from which they are to select programs for audit.

Ms. Chepel reviewed the specific programs that were audited: the Student Financial Aid Cluster, Pathways out of Poverty Grant, Predominantly Black Institutions Formula Grant and the Trade Adjustment Assistance Community College and Career Training Grant (TAACCCT). She explained that as a result of a timing issue, there were repeat findings from last year for the Pathways Out of Poverty Grant. The program ended half way through the 2011-12 year. The repeat findings occurred as a result of the timing of the 2010-11 A-133 audit which generated findings to which the College responded in the second half of the 2011-12 year. However, because the findings did occur in the 2011-12 year before the corrective action plan was implemented, the auditors were required to repeat the 2010-11 findings. No further recommendations were made because a corrective action plan had been implemented as of March 2012.

Ms. Chepel discussed the Trade Adjustment Assistance Community College and Career Training Grant (TAACCCT). She reminded the Committee that this was a $20 million Department of Labor grant that awards funds to all 14 Pennsylvania Community Colleges with Community College of Philadelphia being the lead institution. For the FY2012 year, the Project did not have a large amount of expenses, since most Colleges were in the start-up year. Community College of Philadelphia is required to monitor the other 13 Community Colleges to ensure that they are spending the dollars in accordance with Federal guidelines as part of the College's fiscal agent responsibility.

Mr. Downs asked if KPMG was participating in the monitoring process. Ms. Chepel explained that KPMG must maintain their independence. However, they have worked with Mr. Murphy and the TAACCCT staff in helping to define a monitoring guide which is now being used by CCP in the project management process. In addition, Community College of Philadelphia, as part of the monitoring requirements, obtains copies of each College's A-133 Audit reports, since they are all subject to the A-133 audit requirements. KPMG is reviewing the A-133 audits performed at the other colleges. If there is a specific concern about any particular College, KPMG could be engaged to perform an "Agreed Upon Procedures" Audit if the College deems it necessary.

Dr. Hawk asked if there was a chance that any of the other Colleges' TAACCCT Grant could escape an A-133 Audit. Ms. Chepel explained that it would depend on the make-up of each school's Federal Awards and Student Financial Aid Cluster, so there is a chance that a school's TAACCCT program may not be audited. However, since the threshold is currently $300,000 it is expected that most of the other College's would reach that level in year two. There is a single audit requirement for auditors to audit any program over $300,000 if it has never been audited.

Mr. White asked if there were procedures in place to ensure compliance. Dr. Curtis explained that every invoice from all the 14 Colleges flows through CCP and all paperwork is carefully reviewed by staff. In addition, the Department of Labor performed an audit of year one. The College has been very aggressive in its monitoring efforts, and project staff have spent a significant amount of time performing site visits to the other colleges reviewing paperwork and ensuring compliance. Ms. Weitz noted that since we get copies of the other colleges' A-133 Audits, we can identify any potential issues and follow up as necessary.

Mr. Downs raised the question as to why the College was no longer classified as "low risk." Ms. Chepel explained that this status only means that the College had reportable A-133 findings in the prior year. The only impact is now KPMG is required to audit at least 50% of the College's expenditures rather than 25%. However, since the College's Student Financial Aid is significantly more than 50%, this requirement did not affect CCP. This status will continue unless the College has a year with no A-133 findings.

Ms. Chepel and Mr. Ayres reviewed the new A-133 2011-12 finding. The finding was in the Student Financial Aid program area and related to reporting student enrollment status changes within 60 days. In the sample of 40 students, 11 student status changes were not communicated on a timely basis to the National Student Loan Data System (NSLDS). Mr. Ayres stated that there was an error in the programming that caused the discrepancy in the timing of the communication. The impact of this finding is that it can affect the timing of students entering into repayment status of student loans. Mr. Murphy explained that he discussed this with the Student Affairs representatives and they have ensured that the programming has since been corrected. Mr. White asked if there is a concern that this issue could happen again. Mr. Murphy mentioned as a follow up, the Internal Auditor could review the process to ensure that the College's corrective action plan is followed. Mr. Lim explained that Financial Aid carefully reviews and scrubs all data before it is sent to NSLDS. A programming error occurred after a reporting change was made. The system issue is now fixed; it should not happen again. Ms. Chepel mentioned that the College had not had this finding previously, and it was the program used that actually provided the incorrect information. KPMG believes that the College's corrective action should prevent this from occurring in the future. Dr. Hirsch noted that his area has put a number of checks and balances within the process and the system to ensure this does not happen again.

Ms. Chepel discussed the other four findings as repeat from the previous year. She told the Committee that the Department of Labor reviewed the audit last year and accepted the College's corrective action plan. KPMG feels that no further action is required.

Action: Mr. Downs asked for a motion to recommend acceptance of the June 30, 2012 A-133 Audit. Mr. White made the motion. Mr. Downs seconded the motion. The motion passed unanimously.

Mr. White inquired about the cost of the audit. Dr. Hawk explained the cost of the audit was within the budgeted amount since fewer audits were completed than last year. Ms. Chepel stated that last year, the College had seven major programs audited as compared to only four this year. This was the result of several grant programs ending or falling below the audit threshold. In addition, where the College had a clean audit, KPMG now has the flexibility to rotate when the program is next audited.

Mr. White asked if there were any issues with respect to the relationship with the staff. Ms. Chepel stated that management has always been very responsive to any findings and reacts quickly to supplying any information.

Mr. White asked if there were any new rules or guidelines that will affect the College in the future. Ms. Chepel discussed an OMB (Office of Management and Budget) proposal that will change the single audit. The purpose is to help streamline and reduce the audit effort within the next few years.

Mr. Downs asked if the College is still facing a change with respect to GASB 45. Ms. Chepel explained that an exposure draft summarizing the recommended changes should be out shortly with a final standard issued in June of 2015. The new standard will no longer allow the College to phase in the total accrued Other Post Employee Benefits (OPEB) liability, instead the entire amount will be recorded at one time on the College's balance sheet. However, there is discussion about the portion that is an actual liability and the portion that will be classified as a deferred outflow of resources. This will create a distinction between the amount the College actually owes and long-term actuarial calculation for future costs. The overall impact is that the College's net assets will potentially be reported at a negative level. All rating agencies are aware of the change and realize nothing is happening economically. Mr. Downs stated he was concerned as to how rating agencies will be able to provide an A1 rating to an institution with negative net assets.

(3) 2012-2013 Budget Update (Information Item):

Mr. Downs discussed the Budget results before the Audit meeting with Todd Murphy. Mr. White reviewed the Budget results at the Business Affairs Committee meeting yesterday, March 20, 2013, and had no further questions as well.

(4) Next Meeting:

The next meeting of the Committee will be held on Wednesday, June 26, 2013 at 12:00 noon in the Isadore Shrager Boardroom, M2-1.

EXECUTIVE SESSION

An Executive session was held with Board members and College staff.

TEM/lmh
Attachments
cc: Dr. Stephen M. Curtis
Dr. Thomas R. Hawk
Jill Garfinkle Weitz, Esq.
Mr. James P. Spiewak
Mr. Gim Lim
Mr. Waverly Coleman
Dr. Wayne Wormley
Mr. Daniel Robb
Dr. Samuel Hirsch
Representing KPMG: Ms. Chris Chepel and Mr. Arthur Ayres

ATTACHMENT B

KPMG 2012-2013 AUDIT PROCESS

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FY 2013: Audit Planning Discussion with the Audit Committee

Community College of Philadelphia

June 26, 2013

Agenda

1 Audit Plan – Key Items for Discussion

- Client service team
- Significant audit areas
- Accounting and auditing pronouncements impacting 2013
- Perspectives of the Audit Committee
- Audit fees

2 Other Required Communications under Professional Standards

- Objective of an audit
- Responsibilities
- Audit scope
- Timelines
- General approach to fraud risk

3 Recent Publications

- Governance Challenges and Priorities Driving the 2013 Agenda: *Insights from the 9th Annual Audit Committee Issues Conference*
- Audit Committee Considerations in 2013 for Higher Education and Other Not-for-Profit Organizations

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1 Audit Plan: Key Items for Discussion

Client service team

Engagement Audit Partner
Chris Chepel

Engagement Quality Control Reviewing Partners
Jane Letts

Engagement Audit Manager
Arthur Ayres

IT Manager
Mark Brennan

Significant audit areas

Routine balances and transactions	Significant estimates and judgments	Significant current year events and transactions
▪ Cash and cash equivalents ▪ Tuition and fee revenue and related accounts and student loans receivable ▪ Investments. related investment return and endowment disclosures ▪ Student financial aid ▪ Contributions revenue and related receivables ▪ Grants revenue and related receivables ▪ Land, buildings, and equipment and related depreciation ▪ State and city appropriations and related payables and receivables ▪ Collections ▪ Accounts payable, accrued expenses and related expenditures ▪ Long-term debt and related accounts ▪ Deferred income ▪ Accrued compensation ▪ Activities of component unit Foundation ▪ Journal entries (consideration of risk of management override)	▪ Fair value of investments in investment companies ▪ Discount and allowance for contributions receivable (Foundation Capital campaign) ▪ Post retirement benefit obligation ▪ Commitments and contingencies	▪ New/ongoing construction (expenditure of bond proceeds, grants, and gifts) ▪ Recently announced personnel changes

Accounting and auditing pronouncements effective for June 30, 2013 year-end

- **Clarified Auditing Standards**
  - Will significantly change the appearance and presentation of audit reports, including headings and simplified language

- **GASB Statement No. 63**, ***Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***
  - This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. It also requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities.
  - Deferred inflows and outflows of resources represent the current acquisition or consumption of net assets that is applicable to a future reporting period.
  - In addition, it amends certain provisions of Statement 34 and related pronouncements to define the residual measure in the statement of financial position as net position, not net assets.

Impact for CCP: There will be limited impact in the first year of implementation other than the formatting changes described above. Standards with future effective dates will result in deferred inflows and outflows of resources being recognized, and certain items that have previously been classified as assets being reclassified as expenses
.

- Statement No. 65, *Items Previously Classified as Assets and Liabilities* (effective for FY 2014)
  - Among other things, the standard will impact:
    - Debt refundings – gain or loss on defeasance will now be a deferred inflow or outflow of resources instead of an assets or liability
    - Debt issuance costs – will generally be expensed going forward (will apply retroactively to existing capitalized debt issuance costs)

- It is also anticipated that certain components of the other postemployment benefits obligation will be categorized as deferred outflows of resources rather than as a liability, including the impacts of changes of economic and demographic assumptions and differences between expected and actual experience.

Audit committee perspectives

In addition to the audit committee's core responsibilities with respect to financial reporting and internal controls, including review of external auditor reports and recommendations, the following areas are receiving increasing attention from audit committees:

- Enterprise risk management*
- Information technology
- Regulatory compliance, including research, clinical, etc.
- Conflict of interest / related party transactions
- Globalization
- Congressional, IRS and media attention
- Form 990 disclosures and other tax matters
- Oversight of internal audit – assessing effectiveness
- Audit committee effectiveness, self-assessment, and education

*Certain "event driven" risks have been added to agendas, including activities involving minors, reporting of institutional data, on-line education developments, and impact of the ongoing federal budget negotiations and sequester.

Areas that may warrant particular attention during the audit:

- Fraud risks?
  - Misappropriation of assets?
  - Financial reporting?
- Risks of misstatement due to error?
- Changes in strategy?
- Changes in key personnel?
- Changes in technology?
- Significant legal or regulatory matters?
- Significant or unusual transactions?

2013 Audit Fees

Audit Deliverables	Contracted fee
Community College of Philadelphia financial statement audit	$80,250
CCP Foundation financial statement audit	$6,550
OMB Circular A-133 (Single Audit) report – first two major programs	$29,480
OMB Circular A-133 (Single Audit) - each additional major program	$11,750
State Grant agreed-upon procedures	$13,100
PA Department of Community and Economic Development Grants (as required) - each	$5,700

2 Other Required Communications

Objective of an audit

- The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

- We plan and perform the audit to provide reasonable, not absolute, assurance that the consolidated financial statements taken as a whole are free from material misstatement, whether from error or fraud.

- We design tests of controls to obtain sufficient evidence to support the auditor's control risk assessments for purposes of the audit of the consolidated financial statements.

Responsibilities

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Establishing and maintaining effective internal control over financial reporting
- Identifying and confirming that the College complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to management's:
  - disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the College's ability to record, process, summarize, and report financial data; and
  - acknowledgement of their responsibility for the design and implementation of programs and controls to prevent and detect fraud

The Audit Committee is responsible for:

- Oversight of the financial reporting process and internal control over financial reporting

Management and the Audit Committee are responsible for:

- Establishing and maintaining internal controls to prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

The audit of the financial statements does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- Planning and performing the audit to obtain reasonable – not absolute – assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected.
- Evaluating:
  - whether the College's controls sufficiently address identified risks of material misstatement due to fraud; and
  - controls intended to address the risk of management override of other controls
- Communicating to you in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention
- Conducting our audit in accordance with professional standards
- Complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy
- Planning and performing our audit with an attitude of professional skepticism
- Communicating all required information, including significant matters, to management and the Audit Committee

Audit scope

	Deliverables
Primary Audit	■ Opinion on the financial statements of the College and its component unit Foundation ■ Report under *Government Auditing Standards* on internal control, compliance and other matters ■ Reports required under U.S. OMB Circular A-133, *Audits of States, Local Governments and Not-for-Profit Organizations* (Single Audit) ■ Enrollment (State) agreed-upon procedures letter ■ Issue management letter presenting our recommendations regarding internal controls and other operational matters ■ Report to the Audit Committee on various matters in accordance with SAS 114, *Communication with those Charged with Governance*
Other Reports and Services	■ Tax Services (Form 990 for the Foundation) ■ PA Department of Community and Economic Development (DCED) audit reports(s) (if required)

Audit timelines - financial statement audit

Audit Interim Phase (June-July)

Meet with senior management to discuss year-to-date results and identify any emerging accounting and financial matters

Meet with Audit Committee to discuss the 2013 audit plan

Update understanding of key processes, risks, and internal controls

Perform audit procedures on internal controls and perform audit procedures on selected interim balances

Information Technology procedures

Provide feedback to management on results of interim procedures, potential management letter comments, and audit plan revisions, if any

With respect to the A-133 audit, identify preliminary major programs and hold A-133 planning meeting with key members of program management

Final Phase (August - September)

Perform substantive audit procedures on year-end balances

Meet with management to review final audit findings and draft auditors' reports

Present final drafts of audited financial statements and management letter to the Audit Committee in September 2013

Issue final financial statements, Government Auditing Standards report , and management letter

Final determination of major programs for A-133 Audit

Audit timelines – other reports

Other Reports

State AUP (enrollment) report

- Target issue date 12/15/2013
- Due 12/31/2015

Single (A-133) Audit

-Target issue date 1/31/2014
- Due 3/31/2014

DCED Reports (if applicable)

- Due 120 days after grant end date

Approach to fraud risks

Identification of fraud risks:

- Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level
- Discuss among the engagement team the susceptibility of the entity to fraud
- Perform fraud inquiries of management, the Audit Committee and others
- Evaluate the College's broad programs/controls that prevent, deter, and detect fraud

Response to identified fraud risks:

- Evaluate design and implementation of anti-fraud controls
- Test effectiveness of anti-fraud controls
- Address revenue recognition and risk of management override of controls
- Perform specific substantive audit procedures (incorporate elements of unpredictability)
- Evaluate audit evidence
- Communicate to management and the Audit Committee

Fraud risk presumed under professional standards:

- Risk of management override of internal controls (Journal Entries)

3 Recent Publications

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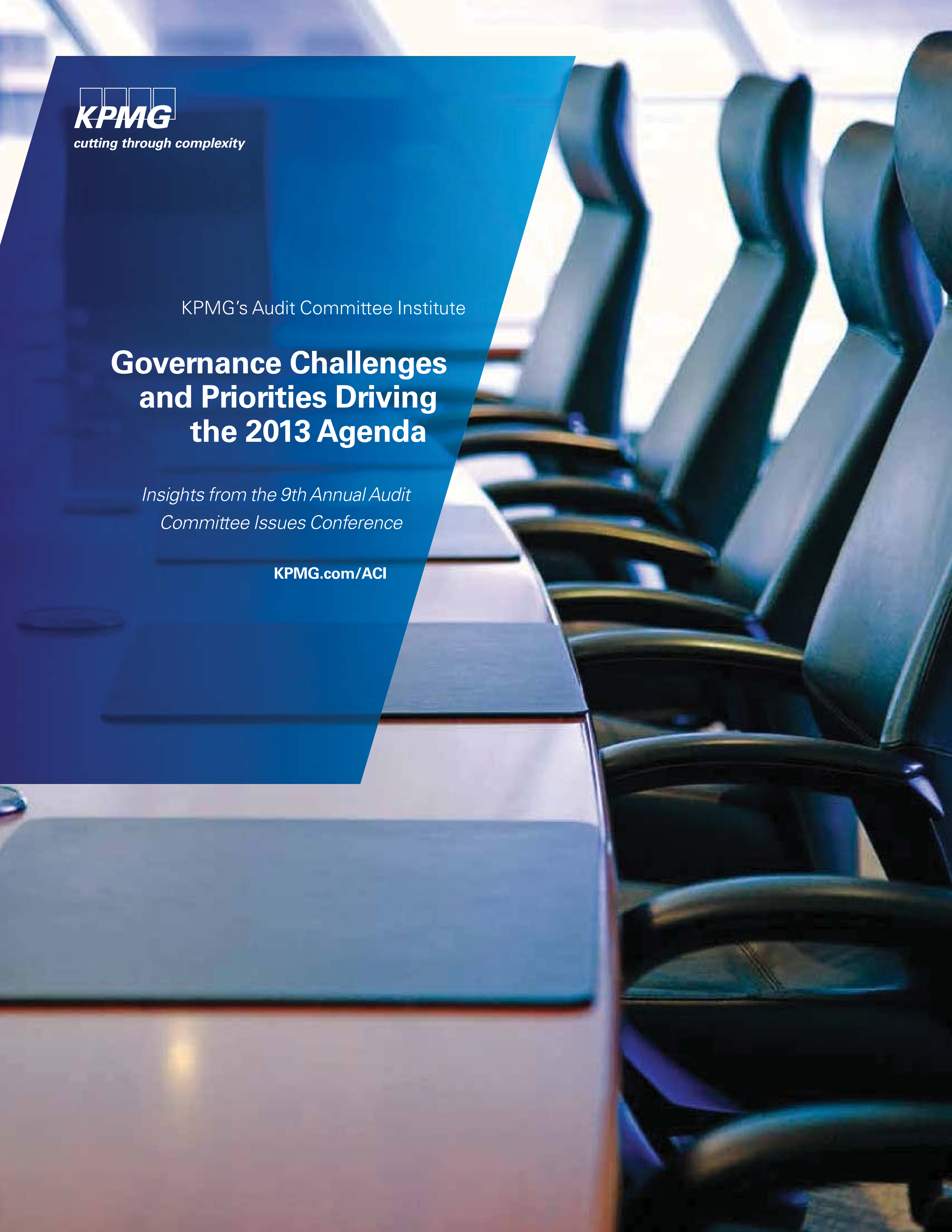
KPMG's Audit Committee Institute

Governance Challenges and Priorities Driving the 2013 Agenda

Insights from the 9th Annual Audit Committee Issues Conference

KPMG.com/ACI



Governance Challenges & Priorities Driving the 2013 Agenda

Signs of sustained economic growth. Ongoing fiscal crises in the U.S. and the euro zone. Supply chains, strategic opportunities, and social media tightening global interconnections. Cyber terrorism and the speed of technology change. A shifting regulatory landscape and stepped-up enforcement. All of this—and more—will put even the best of audit committees and boards to the test in 2013 as they help their companies navigate the challenges and cross-currents ahead. Risk, strategy, and compliance will continue to be front-and-center, with a sharp focus on information quality, corporate culture, risk oversight processes, and the board's own expertise.

"The pace of technology change and the complexities of doing business in a global environment continue to raise the stakes on risk management and oversight," said Dennis T. Whalen, Partner in Charge & Executive Director of KPMG's Audit Committee Institute (ACI), which hosted KPMG's 9th Annual Audit Committee Issues conference with cosponsors the National Association of Corporate Directors and Weil, Gotshal & Manges LLP. "It's clear from the conference dialogue that now is a pivotal time for boards to take a hard look at how they allocate risk oversight responsibilities, to make sure everything is covered and appropriately balanced among committees."

In the following pages, we highlight key challenges and practices shaping audit committee and board agendas in 2013, as discussed with more than 140 audit committee members, directors, and governance professionals attending the Miami conference.

Ensuring Financial Reporting Integrity and Reinforcing Audit Quality

In light of continued economic volatility and uncertainty, audit committees will need to stay vigilant in their oversight of financial reporting and disclosures. Key areas of continued focus: fair value estimates and impairments, understanding management's assumptions underlying critical accounting estimates, and ensuring that all financial communications—including earnings releases and analyst calls—are consistent with what is being said in quarterly and annual filings. Earnings quality also remains front-and-center, particularly in light of cost-reductions and pressures to grow the business and meet targets (e.g., analyst estimates and budget targets).

"Remember, financial reporting quality starts with management," noted one director, emphasizing the importance of ensuring that the company's financial team has sufficient resources, skills, and bench strength. "This is not an area to cut corners or pinch pennies."

Notwithstanding stalled efforts to adopt IFRS in the U.S., audit committees should be monitoring various ongoing FASB convergence projects that could have a significant impact on accounting decisions and resources, including projects on revenue recognition, lease accounting, and financial instruments.

While nearly all audit committee members responding to ACI's Global Audit Committee Survey[1] expressed confidence in the accuracy, independence, and objectivity of the audit, conference dialogue stressed that audit quality and "avoiding surprises" hinges on open, ongoing, informal communications

[1] See KPMG's Global Audit Committee Survey, January 2013

Audit Quality

How satisfied are you with the quality of the external audit – i.e., that the audit is accurate, independent, objective, and adequately addresses the company's key financial reporting risks?

Satisfied

84%

Somewhat satisfied

15%

Not satisfied

1%

Source: KPMG's Global Audit Committee Survey, released January 2013

between the audit committee and auditor. "We go well beyond the required communications," noted an audit committee chair. "I spend a lot of time with the external auditor, as well as the CFO, internal auditor, and even the tax director to understand the story behind the numbers, and whether everyone has the resources they need to do the job. Executive sessions with all of these folks—and particularly the external auditor—are invaluable for surfacing issues."

Directors in attendance also echoed sentiment expressed in ACI's global survey that evaluations of the external auditor, while "effective," are often ad hoc and could be more formal and robust.

Among the considerations highlighted by panelists:

- Set the tone and clear expectations for the external auditor through frequent, quality communications and a rigorous performance assessment.
- "Improve the audit by strengthening the audit committee" – e.g., enhancing the audit committee's expertise and improving the committee's oversight practices.
- Test management's skepticism about its own information. "If management is 100 percent confident in its information, 100 percent of the time, that's probably a red flag."

Focusing on Risk Management and Improving Information Quality

Are the issues that "keep management up at night" being raised with the board in a timely manner? More than half of those surveyed at the conference ranked this as a key opportunity to improve the quality and flow of information to the audit committee and/or the board. The volume and prioritization of information is also a concern: "Management needs to be able to present the most pertinent issues succinctly, on two or three pages, not fifty."

While businesses and boards have sharpened their focus on risk management in recent years, nearly half of the respondents to ACI's global survey said their company's risk management program still "requires substantial work."

Even a robust risk management program "needs to have the right risk culture behind it," said one director. "Does the organization encourage its people to raise red flags? Do the audit committee and board actively seek out different and dissenting views, and recognize when over-reliance on management's information—asymmetric information risk—is too high?"

Directors should "find the best people in organization" to provide context on emerging risks, including looking beyond the senior management to employees on the front lines and away from headquarters.

Several directors in attendance cautioned about being lulled by the "routine and mechanical process of a risk management program" and losing site of the forest for the trees. "Keep your eye on the ball. What could take the business down? What are the greatest risks to the brand?"

To strengthen risk management and information quality, panelists also suggested:

- Working closely with management to define the critical information the audit committee needs to carry out its responsibilities.
- "Mapping the risks of the enterprise to board structure and composition."
- "Ensuring that legal and PR have a clear understanding of the crisis management process."
- Understanding how (and whether) management is using technology, data analytics, and social media to identify emerging risks and opportunities.

Better Leveraging Internal Audit

Internal audit is an increasingly important resource for the audit committee, particularly as cyber security, operational, strategic, and other risks become more acute. That said, more than half of audit committee members surveyed recently said internal audit could deliver greater value to the company. "Clearly, it's time to raise internal audit's game."

Risk Management Programs

What is the status ofyour company's risk management program?

Robust, mature system in place

37%

System implemented, but requires substantial work

45%

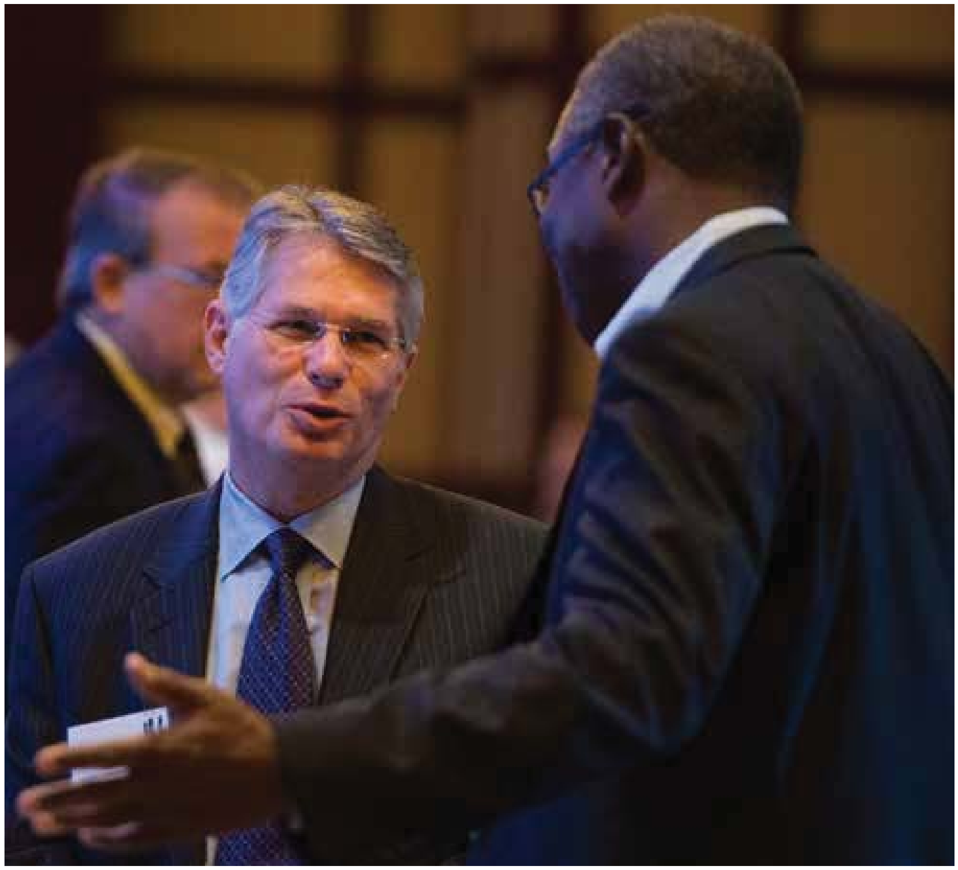
System in planning/ development stage

14%

No active/formal effort to implement risk management system

4%

Source: KPMG's Global Audit Committee Survey, released January 2013



As highlighted by the conference dialogue, internal audit can be most effective when focused on the critical risks to the business, including operational risks and related controls. Among the keys to fully leveraging internal audit:

- Challenging internal audit to take the lead in coordinating with other governance, risk, and compliance functions within the organization to limit duplication in coverage and, more importantly, to prevent gaps
- Maintaining a direct, open line of communication between internal audit and the audit committee
- Ensuring that internal audit has the resources, skills, and stature within the organization to succeed

Strengthening the Board's Global Lens

From strategic growth opportunities and supply chain risks, to managing an extended global organization and ensuring regulatory compliance in far corners of the world, the challenges of globalization increasingly call for international perspective on the board.

As emphasized by panel members, critical areas of focus for boards with international operations include talent management and succession planning, the risks posed by the complexities of global operations, and maintaining a "non-negotiable set of global values while at the same time valuing the local culture." "Boards need to have greater global awareness—and preferably on-the-ground experience and expertise," noted one participant. Indeed, the board can play a vital role in assessing the company's international strategy and activities by:

- Taking time to visit foreign facilities. "Nothing beats traveling, meeting the people, seeing the operations, getting a feel for the culture."
- Being clear-eyed about foreign acquisitions and market entry. "Number one: don't fall in love with the deal, and number two: have a clear exit strategy. Getting out of a country can be even harder than getting in."
- Considering the company's use of local talent and/or joint ventures to navigate the local business culture. "Finding the right local talent is critical—but it's also one of the hardest things to do. Remember, most JVs fail."
- Probing management about the company's supply chain. "How are we vetting our suppliers? And what about our suppliers' suppliers?"

Anticipating a Robust Enforcement Environment Going Forward

The growing volume and scope of government regulations in the U.S. and globally, along with expectations of a robust enforcement environment "for the foreseeable future"—and increased focus on civil (versus criminal) prosecutions—puts a premium on ensuring a strong culture of compliance.

Public policy risk is also higher on the agenda for many boards. "We call it 'stroke-of-the-pen-risk' and it's very much on our radar," noted one participant. "An executive order or legislative action can have a huge impact—whether it's tax reform or environmental regulations."

In ACI's global survey, nearly half of respondents said the audit committee has increased its focus on the adequacy of the company's global compliance efforts in light of stepped-up regulatory enforcement around the world. "The challenge is to get compliance right, without getting buried or distracted by it." Given this environment, conference participants highlighted the importance of:

- Meeting face-to-face with management and business unit heads to get a sense of the compliance culture. "You have to spend time with these folks to really understand how—and whether—they are getting the job done."
- Ensuring that the organization's compliance and risk culture—"what the company does, how it does it, what it stands for"—is clearly and consistently communicated throughout the organization. "We draw a clear line in the sand, and communicate clearly and globally. Compliance and integrity are non-negotiable."
- Considering performance incentives. "How the company compensates the risk and compliance teams says a lot about the culture."

Has the Audit Committee's Workload Reached a Tipping Point?

Given the array of risks that oftentimes find their way onto the audit committee's plate today, is it reasonable to assume that the audit committee has the time and skills to oversee cyber risk and IT, operational risks, compliance, or other major areas of risk in addition to its core oversight responsibilities? Has the audit committee's workload reached a tipping point?

More than half of audit committee members surveyed recently said that it is "increasingly difficult or unrealistic" for the audit committee to effectively oversee the range of risks currently on its plate.[2]

Indeed, whether audit committees have room on their plate for additional oversight responsibilities will depend on the company's size and complexity, whether it operates outside the U.S., and the scope of the audit committee's current responsibilities. Yet, all boards should be taking a hard look at how risk oversight responsibilities are allocated to make sure everything is covered and appropriately balanced among committees. "An overloaded audit committee is an under-performing audit committee."

More broadly, is the board recalibrating its oversight in light of digitization, globalization, and the new legal/ regulatory environment? Does the board have the right composition? Have governance and oversight processes changed—and advanced—as the business environment has become more complex? Would an additional committee—a risk, technology, or compliance committee—strengthen the board's oversight?

[2] KPMG's Fall 2012 Audit Committee Roundtable Series

Internal Audit's Value to the Company

How satisfied are you that your company's internal audit function delivers the value to the company that it should?

Satisfied
45%

Somewhat satisfied
34%

Not satisfied
7%

Company does not have an internal audit function
14%

Source: KPMG's Global Audit Committee Survey, released January 2013

Audit Committee's Expanding Workload

Are you satisfied that your audit committee has the time and expertise to oversee the major risks on its agenda in addition to carrying out out the audit committee's core oversight responsibilities?

Yes
32%

Yes – but increasingly difficult/unrealistic
55%

No
13%

Source: KPMG's Fall Audit Committee Roundtable Series, Nov./Dec. 2012

2013 Conference Speakers & Panelists

Leo Abruzzese
Global Forecasting Director
Economist Intelligence Unit

Joan Amble
Director
Sirius XM, Brown-Forman,
Booz Allen Hamilton

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Legg Mason,
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Robert Reich
Professor of Public Policy,
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Former U.S. Secretary of Labor

Alan Simpson
Co-Chair, National Commission on
Fiscal Responsibility & Reform
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Lawrence Smith
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Carol Tomé
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KPMG's Audit Committee Institute

About the Conference

Now in its ninth year, KPMG's Conference brings together audit committee members and other directors from around the country to discuss the challenges, practices, and priorities shaping audit committee and board agendas. The conference is hosted by KPMG's Audit Committee Institute (ACI), and cosponsored by the National Association of Corporate Directors and Weil, Gotshal & Manges LLP. To learn more, visit KPMG.com/ACI or contact KPMG's ACI at 1-877-KPMG-ACI (576-4224).

Conference Sponsors

KPMG's Audit Committee Institute

ACI provides audit committee and board members with practical insights, resources, and peer-exchange opportunities focused on strengthening oversight of financial reporting and audit quality, and the array of challenges facing boards and businesses today – from risk management and emerging technologies to strategy and global compliance. Learn more about ACI's Audit Committee Roundtable Series, Annual Issues Conference, Quarterly Audit Committee Webcast, and other educational resources for directors at www.KPMG.com/ACI.

National Association of Corporate Directors

The National Association of Corporate Directors (NACD) is the recognized authority on leading boardroom practices, with 35 years of governance experience, a vast portfolio of director resources and only one agenda: advancing exemplary board leadership. That's why more than 12,000 members representing over half the FORTUNE 1000 are members of NACD. NACD delivers insights to confidently navigate complex business challenges and enhance enterprise value, access to a prestigious director network, and a collective voice in policy affecting the boardroom. To learn more about NACD, visit NACDonline.org.

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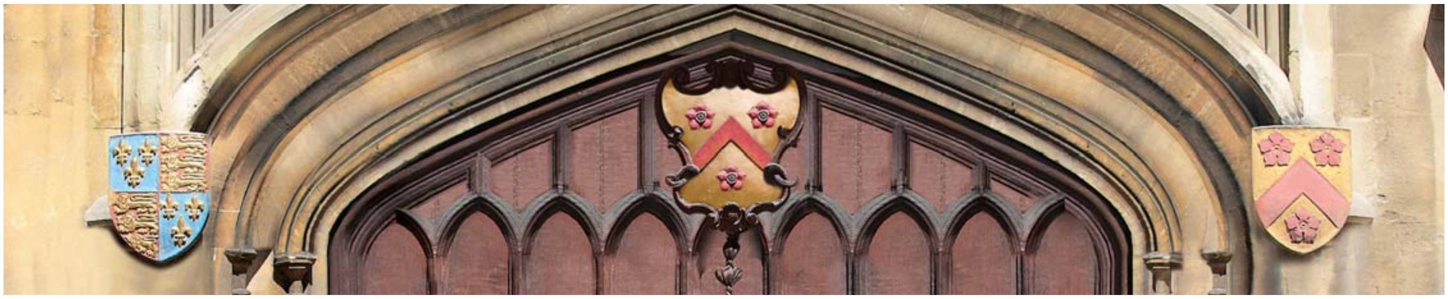
Audit Committee Considerations in 2013 for Higher Education and Other Not-for-Profit Organizations



In 2013, audit committee agendas will be shaped by institutional risk, including continued economic uncertainty, technology change, and compliance in a changing regulatory landscape. Focused, yet flexible agendas – as well as exercising judgment about what belongs and does not belong on the committee's agenda, and knowing when to take deeper dives – will be critical. To help audit committees in higher education and other not-for-profit areas meet the governance challenges of the coming year (recognizing that priorities will vary by organization) we offer the following thoughts for 2013:

- **Stay focused on job #1: Financial reporting and internal controls.** While oversight of institutional risk management will require the attention of every audit committee, the core responsibilities with respect to financial reporting and internal controls must remain in focus. Monitor fair value estimates and management's assumptions underlying critical accounting estimates. Consider how financial disclosures (which may include management's discussion and analysis) can be improved, not just increased, to tell the organization's story. Recognizing that financial reporting quality starts with the CFO and finance organization, maintain a sharp focus on management's financial reporting processes, and make sure they have the resources (systems and people) to succeed.

- **Monitor the impact of the industry and regulatory environment on the organization's compliance programs.** With emerging technologies and strategic growth opportunities tightening the interconnection of institutions, programs, and people, organizations are more vulnerable than ever to potential fraud and misconduct. These vulnerabilities, coupled with the complex global regulatory environment, will require continued attention to compliance risks. Ensure that the organization's regulatory compliance and monitoring programs have the right priorities and focus to succeed. Also consider the continued scrutiny of conflicts of interest and the monitoring and oversight of related-party transactions.

- **Make sure internal audit is properly focused and fully utilized.** Consider the evolution of internal audit's role—and focus internal audit resources on key institutional risks. Evaluate the adequacy of the organization's risk management *processes* generally. Internal audit can be most effective when it is focused on critical operational/strategic risks and related controls—not just compliance and financial reporting risks. What's changed in the operating environment? What are the risks posed by the extended organization—resource deployment, outsourcing, emerging IT, and international activities? Set clear expectations and make sure internal audit has the necessary resources, skills, and expertise. Challenge internal audit to take the lead in coordinating with governance, risk, and compliance functions within the organization to limit duplication in coverage and, more importantly, to prevent gaps. As internal audit moves to a higher value add model, it should become an increasingly valuable resource—a trusted advisor and consultant—for the organization and its audit committee.

Broader Governance Matters

Beyond the above "core" areas of oversight, we believe audit committees can play an important role in supporting the board (and coordinating with other board committees) on the following governance matters:

- **Consider whether the board has the right composition and committee structure to provide effective risk oversight.** In addition to their oversight responsibility for financial reporting risk, many audit committees have oversight responsibility for the organization's enterprise risk management (ERM) *process*. Over the years (by design or default), many audit committees have also assumed responsibility for other major risks—such as risks posed by international operations, cyber security and IT risks, and other operational risks. Given the substantial time commitment required by its core oversight responsibilities, does the audit committee have the time and expertise to oversee so many critical risks "beyond the core"? Is there a need for another committee (e.g., risk, technology, compliance)? Are governance risk responsibilities clear? Board and audit committee effectiveness and accountability hinge on honest self reflection, meaningful board assessments, continuing trustee/director education, and adequate orientation for new members.

- **Understand how technology is transforming the organization and its stakeholders—and impacting the business model and board oversight.** The staggering pace of technology change and the accelerating threat of data loss have pushed IT risk steadily higher on audit committee agendas. At the same time, audit committees and boards have expanded their focus beyond "defensive" IT risks—such as data privacy and security, social media/brand reputation, and protection of intellectual capital—to consider the transformational impact of game changing technologies such as on line education, the cloud, social media, mobile, and "big data." Is management making the most of new technologies? For higher education, what is the impact of online course offerings? Absent a technology committee of the board, what is the role of the audit committee in helping to ensure that management understands the opportunities and risks posed by emerging technologies? What expertise/resources does the audit committee require to oversee the organization's efforts to manage the many risks posed by these technologies?

- **Set the tone and closely monitor leadership's commitment to that tone, as well as the culture throughout the organization globally**. The year ahead will be one of tremendous pressure and change. In this environment, it is more important than ever to be acutely sensitive to the tone from (and example set by) leadership, and to reinforce the culture of the organization, i.e., *what* the organization does, *how* it does it, and the culture of compliance, including a commitment to integrity throughout the organization. Is the audit committee hearing views from those below senior management and outside? Are there dissenting views? Recognize when asymmetric risk – the over reliance on senior management's information and perspective – is too high. Does the information provided by management, internal audit, and external auditors tell a consistent story? The tone and culture throughout the extended organization are critical.

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ATTACHMENT C

2013-2014 INTERNAL AUDIT PLAN

Community College of Philadelphia
Internal Audit Plan - July 1, 2013 to June 30, 2014

Functional Area	Risk Rating	Risk Explanation / Reason for Audit	# of Days Allocated	% of Total
Financial Audits				
Bursar Billing Procedures	H	New billing procedures	15	7%
P-Card Purchasing	L	Determine compliance with policies and procedures	10	5%
Expense Reports	L	Determine compliance with policies and procedures	10	5%
Colonial One Card	H	Determine controls over new card program	15	7%
Operational Audits				
New Employee Process	L	Validate controls over processes	10	5%
Part-Time Faculty Medical Benefits	L	Determine controls and accuracy of only benefit funded entirely by staff	10	5%
Payroll	L	Largest college expense	15	7%
Financial Aid	H	Determine compliance with policies, procedures and regulations	20	9%
Pell Grants - Appeal Process for Academic Progress	M	Determine compliance with requirements	10	5%
Center on Disability	L	Determine compliance with requirements	15	7%
Dental Benefits	L	Determine eligibility of participants	10	5%
FMLA	L	Compliance with Family Medical Leave Act	5	2%
Title IX	M	Determine controls/ procedures in place to address / prevent discrimination based on gender	10	5%
Site Visits - GED, ESL	L	Ensure risks are controlled / minimized in remote locations	2	1%

Community College of Philadelphia
Internal Audit Plan - July 1, 2013 to June 30, 2014

Functional Area	Risk Rating	Risk Explanation / Reason for Audit	# of Days Allocated	% of Total
Construction Projects				
BMW Project	H	Remainder of campus expansion project	10	5%
Chemistry Labs	H	New project in 2013	10	5%
Compliance				
TACCCT Grant	H	Financial responsibility for grant admin through 9/14	10	5%
10,000 Small Businesses	H	New multi-year grant starting in 2013	10	5%
IT Audits				
Mobile Device Inventory	L	Assist management with inventory procedures - perform follow up audit	5	2%
Physical Security	L	Determine adequacy of controls	5	2%
Administrative				
Follow Up on Prior Issues			5	2%
Committee Meetings (Grants, DRP, EMRT, external audits/reviews)			5	2%
Professional Development			5	2%
			222	100%